



**NGQUSHWA LOCAL MUNICIPALITY**  
**Annual Financial Statements**  
**for the year ended 30 June 2016**

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

## GENERAL INFORMATION

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<b>LEGAL FORM OF ENTITY</b>	Local Municipality
<b>NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES</b>	Ngqushwa is a Local Municipality rendering basic services such as Refuse Collection, Infrastructure Development, Economic Development Community Services, etc.
<b>EXECUTIVE COMMITTEE</b>	Mr S.E. Ndayana (Mayor) Mr Z. Jowela (Speaker) Ms N.C. Gxasheka (Acting Chief Whip) Ms L. Cuka (Member of Executive Committee) Mr M. Faltein (Member of Executive Committee) Mr T. Siwisa (Member of Executive Committee) Ms N. Tele (Member of Executive Committee) Mr M. Boqwana
<b>COUNCILLORS</b>	Ms N. Coto  Ms T.N. Dyani Ms T.G. Dyibhishe Mr S. Jali Mr T. Magazi Ms N.N.C. Maphekula Mr M.C. Mapuma Ms N. Mntanga Mr A. Mtshakazi Ms N. Ndabazonke Mr A. Ndanda Mr M.G. Ntonjane Mr M.B. Sethuntsa Ms N.A. Seysman Ms P. Sithole Mr T. Tusani Mr Y.G. Yolelo
<b>TRADITIONAL LEADERS</b>	Mr B. Matomela (Chief) Mr N. Mhlauli (Prince) Ms N.V. Njokweni (Princess) Mr G.L. Zitshu (Prince)
<b>GRADING OF LOCAL AUTHORITY</b>	3
<b>CHIEF FINANCE OFFICER (CFO)</b>	Mr V.C. Makedama
<b>ACCOUNTING OFFICER</b>	Mr T.T. Mnyimba
<b>REGISTERED OFFICE</b>	Corner of N2 and R345 Road Peddie 5640
<b>BUSINESS ADDRESS</b>	Corner of N2 and R345 Road Peddie 5640

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

## GENERAL INFORMATION

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### POSTAL ADDRESS

P.O Box 539

Peddie

5640

### BANKERS

First National Bank

### AUDITORS

Auditor-General South Africa

### CONTACT DETAILS

Email: [tmnyimba@ngqushwamun.gov.za](mailto:tmnyimba@ngqushwamun.gov.za)

Telephone: 040 673 3095

[www.ngqushwamun.gov.za](http://www.ngqushwamun.gov.za)

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

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### ABBREVIATIONS

ANC	African National Congress
ASB	Accounting Standards Board
BTO	Budget and Treasury Office
CETA	Construction Education and Training Authority
GRAP	Standards of Generally Recognised Accounting Practice
IEC	Independent Electoral Commission
MPAC	Municipal Public Accounts Committee
PAYE	Pay As You Earn
PR	Public Relations
RDP	Reconstruction and Development Programme
SALGA	South African Local Government Association
SARS	South African Revenue Services
SDL	Skills Development Levy
SPU	Special Programs Unit
UIF	Unemployment Insurance Fund
VAT	Value Added Tax

## NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

### ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

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The accounting officer is required by the Municipal Finance Management Act No. 56 of 2003 to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the financial year ended 30 June 2016 and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB).

The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, communicating, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, that based on the information and explanations given by management, the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatements or deficiencies.

The accounting officer has reviewed the municipality's cash flow forecast for the 12 months to 30 June 2017 and in light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements set out on pages 5 to 62, which have been prepared on the going concern basis, were agreed to by the Council on 13 December 2016 and were signed on its behalf by:

  
\_\_\_\_\_  
**T. T. Mnyimba**  
Accounting Officer

\_\_\_\_\_  
Date

**NGQUSHWA LOCAL MUNICIPALITY**

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016**

	Notes	2016 R	2015 Restated* R
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Inventories	3	268,800	268,800
Operating Lease Asset	4	67,602	93,650
VAT Receivable	5	3,966,173	4,458,535
Receivables from Exchange Transactions	6	7,827,999	2,711,917
Receivables from Non-Exchange Transactions	7	21,061,386	13,522,048
Cash and Cash Equivalents	8	1,200,807	163,631
		<b>34,392,767</b>	<b>21,218,581</b>
<b>NON-CURRENT ASSETS</b>			
Intangible Assets	9	565,871	965,517
Investment Property	10	37,951,900	37,951,900
Property, Plant and Equipment	11	163,415,233	146,670,208
Heritage Assets	12	3	3
		<b>201,933,007</b>	<b>185,587,628</b>
<b>TOTAL ASSETS</b>		<b>236,325,774</b>	<b>206,806,209</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Finance Lease Obligation	13	4,761,551	4,121,498
Payables from Exchange Transactions	14	26,200,505	20,720,188
Payables from Non-Exchange Transactions	16	1,850,712	2,235,375
		<b>32,812,768</b>	<b>27,077,061</b>
<b>NON-CURRENT LIABILITIES</b>			
Finance Lease Obligation	13	7,020,261	3,175,357
Provisions	17	2,848,231	2,490,811
		<b>9,868,492</b>	<b>5,666,168</b>
<b>TOTAL LIABILITIES</b>		<b>42,681,260</b>	<b>32,743,229</b>
<b>NET ASSETS</b>		<b>193,644,514</b>	<b>174,062,980</b>
Accumulated Surplus	18	193,644,514	174,062,980

**NGQUSHWA LOCAL MUNICIPALITY**

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	2016 R	2015 Restated* R
<b>REVENUE</b>			
<b>Revenue from Exchange Transactions</b>			
Service Charges	19	571,929	535,518
Licences and Permits	20	1,638,850	1,675,561
Rental of Facilities and Equipment	21	192,928	225,074
Agency Services		315,731	334,015
Other Revenue	22	269,155	208,518
Interest Earned - Outstanding Debtors	23	3,277,506	2,436,854
Interest Revenue	24	1,255,184	820,414
<b>Total Revenue from Exchange Transactions</b>		<b>7,521,283</b>	<b>6,235,954</b>
<b>Revenue from Non-Exchange Transactions</b>			
Property Rates	25	17,137,076	10,721,837
Government Grants	26	110,343,000	106,354,061
Fines and Penalties		623,092	732,949
Other Transfer Revenue	27	2,060,146	59,363
<b>Total Revenue from Non-Exchange Transactions</b>		<b>130,163,314</b>	<b>117,868,210</b>
<b>Total Revenue</b>		<b>137,684,597</b>	<b>124,104,164</b>
<b>EXPENDITURE</b>			
Employee Related Costs	28	47,796,803	43,430,249
Remuneration of Councillors	29	7,758,337	7,223,883
Depreciation and Amortisation	30	13,334,238	19,975,737
Impairment of Assets	31	318,045	211,981
Finance Costs	32	3,675,138	1,682,326
Debt Impairment	33	1,963,245	1,887,912
Repairs and Maintenance	34	3,811,007	1,325,290
Other Expenditure	35	41,846,126	30,351,742
<b>Total Expenditure</b>		<b>120,502,939</b>	<b>106,089,120</b>
<b>Operating Surplus</b>		<b>17,181,658</b>	<b>18,015,044</b>
Loss on Disposal of Assets		(224,833)	-
Remeasurement of Long Service Bonus		-	191,000
		<b>(224,833)</b>	<b>191,000</b>
<b>Surplus for the year</b>		<b>16,956,825</b>	<b>18,206,044</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2016

	Accumulated Surplus R	Total net assets R
Balance as at 30 June 2014	157,513,974	157,513,974
Prior Year Adjustments	(1,657,038)	(1,657,038)
<b>Restated Balance at 01 July 2014</b>	<b>155,856,936</b>	<b>155,856,936</b>
Restated Surplus For The Year	18,206,044	18,206,044
Total changes	18,206,044	18,206,044
<b>Restated Balance at 01 July 2015</b>	<b>174,062,980</b>	<b>174,062,980</b>
<b>Changes in Net Assets</b>		
Prior Year Adjustment Recognised Directly in Equity	2,624,709	2,624,709
Other Adjustments	-	-
Surplus For The Year	16,956,825	16,956,825
	16,956,825	16,956,825
Total Changes for the Year	19,581,534	19,581,534
<b>Balance at 30 June 2016</b>	<b>193,644,514</b>	<b>193,644,514</b>
Refer to Note 39 (Prior Period Errors)		



**NGQUSHWA LOCAL MUNICIPALITY**

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	2016 R	2015 Restated* R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>RECEIPTS</b>			
Billed Services		6,592,178	8,064,540
Government Grants		110,343,000	100,783,006
Interest Revenue		1,255,184	820,414
Other Services		4,876,578	2,966,627
		<u>123,066,940</u>	<u>112,634,587</u>
<b>PAYMENTS</b>			
Payments to Employees		(57,863,119)	(51,795,267)
Payments to Suppliers		(35,415,109)	(39,753,832)
Finance Costs	32	(3,675,138)	(1,501,326)
		<u>(96,953,366)</u>	<u>(93,050,425)</u>
<b>Net cash flows from operating activities</b>	36	<u><b>26,113,574</b></u>	<u><b>19,584,162</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	11	(24,528,277)	(26,667,166)
Proceeds from Sale of Property, Plant and Equipment	11	316,425	-
Proceeds from Insurance Claim for Loss of Property, Plant and Equipment	22	30,396	43,779
Purchase of Intangible Assets	9	-	(64,745)
<b>Net cash flows from investing activities</b>		<u><b>(24,181,456)</b></u>	<u><b>(26,688,132)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Finance Lease Repayments	13	(894,942)	(1,350,747)
<b>Net increase/(decrease) in Cash and Cash Equivalents</b>		<u><b>1,037,176</b></u>	<u><b>(8,454,717)</b></u>
Cash and Cash Equivalents at the beginning of the year		163,631	8,618,348
<b>Cash and Cash Equivalents at the end of the year</b>	8	<u><b>1,200,807</b></u>	<u><b>163,631</b></u>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage Variance and Comment
	R	R	R	R	R	

### Statement of Financial Performance for the Year Ended 30 June 2016

#### REVENUE

##### REVENUE FROM EXCHANGE TRANSACTIONS

Service Charges	419,000	226,000	645,000	571,929	(73,071)	-11% See Note 1
Licences and Permits	1,708,000	-	1,708,000	1,638,850	(69,150)	-4%
Rental of Facilities and Equipment	20,000	230,000	250,000	192,928	(57,072)	-23% See Note 2
Agency Services	252,000	-	252,000	315,731	63,731	+25% See Note 3
Other Revenue	11,700,000	(2,819,000)	8,881,000	269,155	(8,611,845)	-97% See Note 4
Interest Earned - Outstanding Debtors	18,000,000	(8,000,000)	10,000,000	3,277,506	(6,722,494)	-67% See Note 5
Interest Revenue	1,000,000	1,000,000	2,000,000	1,255,184	(744,816)	-37% See Note 6
<b>Total revenue from exchange transactions</b>	<b>33,099,000</b>	<b>(9,363,000)</b>	<b>23,736,000</b>	<b>7,521,283</b>	<b>(16,214,717)</b>	

##### REVENUE FROM NON-EXCHANGE TRANSACTIONS

Property Rates	16,840,000	-	16,840,000	17,137,076	297,076	+2%
Government Grants	110,203,000	7,107,000	117,310,000	110,343,000	(6,967,000)	-6%
Fines and Penalties	1,509,000	(1,100,000)	409,000	623,092	214,092	+52% See Note 7
Other Transfer Revenue	-	-	-	2,060,146	2,060,146	+100% See Note 4
<b>Total Revenue from Non-Exchange Transactions</b>	<b>128,552,000</b>	<b>6,007,000</b>	<b>134,559,000</b>	<b>130,163,314</b>	<b>(4,395,686)</b>	
<b>Total Revenue</b>	<b>161,651,000</b>	<b>(3,356,000)</b>	<b>158,295,000</b>	<b>137,684,597</b>	<b>(20,610,403)</b>	

#### EXPENDITURE

Employee Related Costs	(50,309,000)	1,318,000	(48,991,000)	(47,796,803)	1,194,197	+2%
Remuneration of Councillors	(7,310,000)	(329,000)	(7,639,000)	(7,758,337)	(119,337)	-2%
Depreciation and Amortisation	(15,914,000)	6,482,000	(9,432,000)	(13,334,238)	(3,902,238)	-41% See Note 8
Impairment of Assets	-	-	-	(318,045)	(318,045)	-100% See Note 9
Finance Costs	-	-	-	(3,675,138)	(3,675,138)	-100% See Note 9
Debt Impairment	(14,000,000)	5,000,000	(9,000,000)	(1,963,245)	7,036,755	+78% See Note 10
Repairs and Maintenance	(9,005,000)	(20,000)	(9,025,000)	(3,811,007)	5,213,993	+58% See Note 11
Other Expenditure	(59,789,000)	15,633,000	(44,156,000)	(41,846,126)	2,309,874	+5%
<b>Total expenditure</b>	<b>(156,327,000)</b>	<b>28,084,000</b>	<b>(128,243,000)</b>	<b>(120,502,939)</b>	<b>7,740,061</b>	
<b>Operating Surplus</b>	<b>5,324,000</b>	<b>24,728,000</b>	<b>30,052,000</b>	<b>17,181,658</b>	<b>(12,870,342)</b>	
Loss on Disposal of Assets	600,000	-	600,000	(224,833)	(824,833)	-137% See Note 12
<b>Surplus for the year</b>	<b>5,924,000</b>	<b>24,728,000</b>	<b>30,652,000</b>	<b>16,956,825</b>	<b>(13,695,175)</b>	

**NGQUSHWA LOCAL MUNICIPALITY**

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS****Budget on Accrual Basis**

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage Variance and Comment
	R	R	R	R	R	

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016****ASSETS****CURRENT ASSETS**

Inventories	-	-	-	268,800	268,800	+100% See Note 9
Operating Lease Asset	-	-	-	67,602	67,602	+100% See Note 9
VAT Receivable	-	-	-	3,966,173	3,966,173	+100% See Note 9
Receivables from Non-Exchange Transactions	-	-	-	7,827,999	7,827,999	+100% See Note 13
Receivables from Non-Exchange Transactions	24,121,000	8,578,000	32,699,000	21,061,386	(11,637,614)	-36% See Note 13
Cash and Cash Equivalents	(4,500,000)	5,255,000	755,000	1,200,807	445,807	-59% See Note 14
	<b>19,621,000</b>	<b>13,833,000</b>	<b>33,454,000</b>	<b>34,392,767</b>	<b>938,767</b>	

**NON-CURRENT ASSETS**

Intangible Assets	1,969,000	(161,000)	1,808,000	565,871	(1,242,129)	-69% See Note 15
Investment Property	39,042,000	(1,065,000)	37,977,000	37,951,900	(25,100)	0%
Property, Plant and Equipment	239,679,000	(51,251,000)	188,428,000	163,415,233	(25,012,767)	-13% See Note 16
Heritage Assets	-	-	-	3	3	-100% See Note 9
	<b>280,690,000</b>	<b>(52,477,000)</b>	<b>228,213,000</b>	<b>201,933,007</b>	<b>(26,279,993)</b>	

**TOTAL ASSETS**

<b>300,311,000</b>	<b>(38,644,000)</b>	<b>261,667,000</b>	<b>236,325,774</b>	<b>(25,341,226)</b>	
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**LIABILITIES****CURRENT LIABILITIES**

Finance Lease Obligation	-	-	-	4,761,551	4,761,551	-100% See Note 9
Payables from Exchange Transactions	5,000,000	30,000,000	35,000,000	26,200,505	(8,799,495)	+23% See Note 17
Payables from Non-Exchange Transactions	-	-	-	1,850,712	1,850,712	-100% See Note 9
	<b>5,000,000</b>	<b>30,000,000</b>	<b>35,000,000</b>	<b>32,812,768</b>	<b>(2,187,232)</b>	

**NON-CURRENT LIABILITIES**

Finance Lease Obligation	-	-	-	7,020,261	7,020,261	-100% See Note 9
Provisions	2,590,000	3,175,000	5,765,000	2,848,231	(2,916,769)	-51% See Note 18
	<b>2,590,000</b>	<b>3,175,000</b>	<b>5,765,000</b>	<b>9,868,492</b>	<b>4,103,492</b>	

**TOTAL LIABILITIES**

<b>7,590,000</b>	<b>33,175,000</b>	<b>40,765,000</b>	<b>42,681,260</b>	<b>1,916,260</b>	
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**NET ASSETS**

<b>292,721,000</b>	<b>(71,819,000)</b>	<b>220,902,000</b>	<b>193,644,514</b>	<b>(27,257,486)</b>	
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**NET ASSETS**

Accumulated Surplus	292,721,000	(71,819,000)	220,902,000	193,644,514	(27,257,486)	-12%
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# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage Variance and Comment
	R	R	R	R	R	

### CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

#### CASH FLOWS FROM OPERATING ACTIVITIES

##### RECEIPTS

Billed Services	8,711,000	2,409,000	11,120,000	6,592,178	(4,527,822)	-41% See Note 18
Government Grants	110,203,000	10,000	110,213,000	110,343,000	130,000	0%
Interest Revenue	10,000,000	(4,000,000)	6,000,000	1,255,184	(4,744,816)	-79% See Note 18
Other Services	8,584,000	4,863,000	13,447,000	4,876,578	(8,570,422)	-64% See Note 18
	<b>137,498,000</b>	<b>3,282,000</b>	<b>140,780,000</b>	<b>123,066,940</b>	<b>(17,713,060)</b>	

##### PAYMENTS

Employee Costs and Suppliers	(94,451,000)	(15,360,000)	(109,811,000)	(93,278,228)	16,532,772	+15% See Note 18
Finance Costs	-	-	-	(3,675,138)	(3,675,138)	-100% See Note 18

	<b>(94,451,000)</b>	<b>(15,360,000)</b>	<b>(109,811,000)</b>	<b>(96,953,366)</b>	<b>12,857,634</b>	
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##### Net Cash Flows from Operating Activities

	<b>43,047,000</b>	<b>(12,078,000)</b>	<b>30,969,000</b>	<b>26,113,574</b>	<b>(4,855,426)</b>	
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#### CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property, Plant and Equipment	(31,961,000)	1,311,000	(30,650,000)	(24,528,277)	6,121,723	+20% See Note 18
Proceeds from Sale of Property, Plant and Equipment	300,000	(27,000)	273,000	316,425	43,425	+16% See Note 18
Proceeds from Insurance Claim for Loss of Property, Plant and Equipment	-	-	-	30,396	30,396	+100% See Note 18

Net Cash Flows from Investing Activities	<b>(31,661,000)</b>	<b>1,284,000</b>	<b>(30,377,000)</b>	<b>(24,181,456)</b>	<b>6,195,544</b>	
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#### CASH FLOWS FROM FINANCING ACTIVITIES

Finance Lease Repayments	-	-	-	(894,942)	(894,942)	-100% See Note 18
Net increase/(decrease) in cash and cash equivalents	11,386,000	(10,794,000)	592,000	1,037,176	445,176	+ 75% See Note 18
Cash and Cash Equivalents at the beginning of the year	(4,500,000)	4,664,000	164,000	163,631	(369)	0% See Note 18
Cash and Cash Equivalents at the end of the year	<b>6,886,000</b>	<b>(6,130,000)</b>	<b>756,000</b>	<b>1,200,807</b>	<b>444,807</b>	

# NGQUSHWA LOCAL MUNICIPALITY

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## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

### Budget on Accrual Basis

Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage Variance and Comment
R	R	R	R	R	

### Material differences between budget and actual amounts (above 10%)

The detailed reasons for the differences between budget variances are as follows:

1. Service charges raised were less than budgeted for due to places of worship that were included in the budget.
2. Rental of facilities and equipment hall rental was less than anticipated as there were fewer functions being held at the community halls that are revenue generating.
3. The variance is due to an increase in the number of licence.
4. The budget amount includes the budget for "Other Transfer Revenue" which is shown separately under Revenue from Non-Exchange Transactions.
5. The budgeted amount was excessive, and was further reduced by the debtor write offs.
6. Interest earned was lower than anticipated.
7. More traffic fines were issued due to increased traffic control measures put in place.
8. During the budgeting phase, internal projects were not anticipated to be completed in the current year resulting in depreciation for the year being higher than anticipated.
9. The budget for finance costs was included in the repairs and maintenance budget. This overspending must be considered inline with the underspending on repairs and maintenance.
10. The list of debt write off sent to council was less than the budget and the debt impairment calculation.
11. The budget for finance costs was included in the repairs and maintenance budget. This overspending must be considered inline with the underspending on repairs and maintenance.
12. The budget did not take into account the current condition of the assets that were earmarked for sale as they were sold at less than market value due to their current condition.
13. The budget amount included the Receivables from Exchange portion, this is due to correction of double billing that was done in previous years and has since been corrected in the current year.
14. This is due to larger balances that are included in cash and cash equivalents received from investments.
15. The variance was due to the municipality not purchasing any intangible assets in the current year.
16. The variance is due projects that could not be completed and are still under work-in-progress.
17. The variance is due to the correction of prior year errors on salary suspense accounts.
18. The variance is as a result of the differences in other statements as the cashflow is a reconciliation of all your statements to the cash balances.

# NGQUSHWA LOCAL MUNICIPALITY

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## ACCOUNTING POLICIES

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act No. 56 of 2003.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements are disclosed below:

These accounting policies are consistent with the previous period but the wording has since been amended and inclusion of required paragraphs has since been included.

#### 1.1 Presentation Currency

These annual financial statements are presented in South African Rands, which is the functional currency of the municipality. All amounts are rounded off to the nearest Rand.

#### 1.2 Going Concern Assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant Judgements and Sources of Estimation Uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated based on the grading of category of debtors according to their payment history. An accumulation of arrear balances is an indicator of debtor delinquency. Such debtors are provided for as they are considered to be impaired due to uncertainty surrounding the recoverability of the outstanding amounts.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in Note 17: "Provisions" of these financial statements.

##### Allowance for Doubtful Debts

Impairment loss is recognised in surplus or deficit when there is objective evidence that the debtor is impaired. The impairment is measured using the debtor's balances and the policy for debt impairment considering the probability of not receiving the monies owed to the municipality.

# NGQUSHWA LOCAL MUNICIPALITY

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## ACCOUNTING POLICIES

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### 1.4 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both rather than for:

- use in the production or supply of goods or services, or
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial recognition.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a cost of, or service the property. If a replacement cost is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Subsequent Measurement - Fair value method

Subsequent to initial recognition investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net municipality's or deficit for the period in which it arises.

### 1.5 Property, Plant and Equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include all costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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## ACCOUNTING POLICIES

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Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand-by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is depreciated on a straight line basis over their expected useful lives to their estimated residual value. The residual value estimated for motor vehicles is 20% of the cost at acquisition.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except land which is carried at cost.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	9 - 30 years
Plant and Machinery	10 - 15 years
Furniture and Fixtures	5 - 7 years
Motor Vehicles	7 years
Office Equipment	5 - 7 years
Computer Equipment	5 years
Infrastructure	
• Roads - Paved	30 years
• Roads - Graded	7 - 25 years
• Electricity (Street Lights and High Masts)	11 - 20 years
• Speed humps	15 years
Security Equipment	5 years
Work in Progress	Not depreciated
Other Equipment	5 years
Minor Assets	Immediately
Park Facilities	5 - 76 years
Maintenance Equipment	10 years
Landfill Sites	69-98 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in municipality's or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in municipality's or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.



# NGQUSHWA LOCAL MUNICIPALITY

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Annual Financial Statements for the Year Ended 30 June 2016

## ACCOUNTING POLICIES

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### 1.6 Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical existence. An asset is identifiable if it either:

- is capable of being separated or divided from a municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are carried at cost less any accumulated amortisation and any impairment loss.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

The municipality has assumed that the residual value of intangible assets is zero.

Amortisation is provided to write down the intangible assets, on a straight line basis to their residual values as follows:

Item	Useful life
Computer Software	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in municipality's or deficit when the asset is derecognised.

### 1.7 Heritage Assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial Measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

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## ACCOUNTING POLICIES

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### Subsequent Measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation municipality's. However, the increase is recognised in municipality's or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in municipality's or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in municipality's or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation municipality's in respect of that heritage asset.

### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

### Derecognition

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in municipality's or deficit when the heritage asset is derecognised.

### 1.8 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Derecognition is the removal of a previously recognised financial asset or financial liability from a municipality's statement of financial position.

A financial asset is:

- cash;
- a contractual right to:
  - receive cash or another financial asset from another municipality or any other entity; or
  - exchange financial assets or financial liabilities with another municipality, or any other entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality or any other entity; or
- exchange financial assets or financial liabilities with another municipality, or any other entity under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by a municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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## ACCOUNTING POLICIES

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A financial asset is past due when a counterparty has failed to make a payment when contractually due.

### Classification

The municipality has the following types of financial assets (classes and categories) as reflected on the face of the statement of financial position or in the notes thereto.

Class	Category
Receivables from Exchange Transactions	Financial asset measured at amortised cost
Receivables from Non-Exchange Transactions	Financial asset measured at amortised cost
VAT Receivable	Financial asset measured at amortised cost
Operating Lease Asset	Financial asset measured at amortised cost
Cash and Cash Equivalents	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and categories) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from Exchange Transactions	Financial liability measured at amortised cost
Payables from Non-Exchange Transactions	Financial liability measured at amortised cost
Finance Lease Obligation	Financial liability measured at amortised cost

### Initial Recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

### Initial Measurement of Financial Assets and Financial Liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

### Subsequent Measurement of Financial Assets and Financial Liabilities

The municipality measures its financial assets and financial liabilities after initial recognition at amortised cost except for cash and cash equivalents.

The financial assets that are measured at amortised cost are subject to an annual impairment review.

### Receivables from Exchange and Non-Exchange Transactions

Receivables from Exchange and Non-Exchange Transactions are initially measured at fair value.

### Payables from Exchange and Non-Exchange Transactions

Payables from Exchange and Non-Exchange Transactions are initially measured at fair value.

### Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash on hand and call accounts, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are subsequently measured at fair value.

### Gains and Losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in municipality's Statement of Financial Performance.

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## ACCOUNTING POLICIES

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### Impairment and Uncollectibility of Financial Assets

The municipality assesses for impairment at the end of each reporting period when there is any objective evidence that a financial asset is impaired. When the allowance is recognised, it is measured as the asset's carrying amount at the date of recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

### Derecognition

#### Financial Assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived or
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

#### Financial Liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

### Presentation

Interest relating to a financial instrument or a financial liability is recognised as revenue or expense in municipality's or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in municipality's or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

#### Finance Leases - Lessee

Leases of property, plant and equipment where the municipality substantially assumes the risks and rewards of ownership are classified as finance leases. Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the future minimum lease payments. The present value of the future minimum lease payments are determined using the rate implicit in the lease. In the event that the lease does not specify the rate implicit in the lease, the incremental borrowing rate is used. If the borrowing rate cannot be determined the prime interest rate at inception of the lease is used.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the statement of financial performance over the lease period so as to produce a constant periodic rate of interest on the remaining balances of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term when there is uncertainty that the ownership of the leased assets will transfer to the lessee otherwise the useful life is used in any other event.

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## ACCOUNTING POLICIES

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### Operating Leases - Lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

When assets are leased out under an operating lease, the asset is included in the statement of financial position on the nature of the asset.

### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are transferred to beneficiaries, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.11 Impairment of Cash-Generating Assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

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## ACCOUNTING POLICIES

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A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follows:

### Cash-Generating Units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

### 1.12 Employee Benefits

Employee benefits are all forms of consideration given by a municipality in exchange for services rendered by employees.

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## ACCOUNTING POLICIES

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Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the reporting period in which the employees render the related service.

### Short-Term Employee Benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the reporting period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered a service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

### 1.13 Provisions and Contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

# NGQUSHWA LOCAL MUNICIPALITY

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## ACCOUNTING POLICIES

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Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

### 1.14 Revenue from Exchange Transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of Goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of Services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.



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## ACCOUNTING POLICIES

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### Interest

Revenue arising from the use by others of municipality assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in municipality's or deficit, using the effective interest rate method.

### 1.15 Revenue from Non-Exchange Transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange.

Fines are economic benefits or service potential received or receivable by the municipality, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

# NGQUSHWA LOCAL MUNICIPALITY

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## ACCOUNTING POLICIES

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### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality:

- in full at the transaction date even if there is an uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

### Subsequent Measurement

The municipality assesses the collectability of the revenue and recognises impairment loss where appropriate. The municipality uses estimates to determine the amount of revenue that it is entitled to collect. The impairment is recognised as an expense in the statement of financial performance.

### 1.16 Investment Income

Investment income is recognised on a time-proportion basis using the effective interest rate method.

### 1.17 Borrowing Costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Comparative Figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.19 Unauthorised Expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act No. 56 of 2003, the Municipal Systems Act No. 32 of 2000, and the Remuneration of Public Office Bearers Act No. 20 of 1998 or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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Annual Financial Statements for the Year Ended 30 June 2016

## ACCOUNTING POLICIES

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### 1.22 Use of Estimates

The preparation of annual financial statements in conformity with the Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.23 Conditional Grants

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

### 1.24 Related Parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.25 Valued Added Tax

The municipality accounts for value added tax on accrual basis but pays over to /claims from SARS on a payment basis.

### 1.26 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets. An expense is recognised in the municipality's statement of financial performance when, and only when the goods are received and or services consumed. Where an item possesses the essential characteristics of an expense but fails to meet the criteria for recognition it is disclosed in the note.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) are allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Other Expenditure which constitute several expense items which are not individually significant and

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## ACCOUNTING POLICIES

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- Losses on the disposal of assets are reported separately from expenses on the Statement of Financial Performance.

### 1.27 Budget Information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

The statement of comparison of budget and actual amounts has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

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Annual Financial Statements for the Year Ended 30 June 2016

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016	2015
	R	Restated*
		R

### 2. NEW STANDARDS AND INTERPRETATIONS

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

##### GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions on the GRAP on Property, Plant and Equipment and GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the standard.

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Annual Financial Statements for the Year Ended 30 June 2016

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### 2. NEW STANDARDS AND INTERPRETATIONS (continued)

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member); both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that a related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person,
- Management;
- Related parties;
- Remuneration; and
- Significant influence.

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

### GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### 2. NEW STANDARDS AND INTERPRETATIONS (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 108: Statutory Receivables**

The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet sets by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset**

This Interpretation of the standard provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the standards shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the standards on service concession Arrangements: Grantor, both the criteria as noted in paragraph 01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 16 (as amended 2015): Investment Property**

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### 2. NEW STANDARDS AND INTERPRETATIONS (continued)

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers definitions, identifying whether an entity is a principal or agent, accounting by a principal or agent, presentation, disclosure, transitional provisions and effective date.

The effective date of the standard is not yet set by the minister of finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 21 (as amended 2015): Impairment of Non-Cash-Generating Assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.



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Annual Financial Statements for the Year Ended 30 June 2016

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### 2. NEW STANDARDS AND INTERPRETATIONS (continued)

#### Summary of changes:

The changes to the standard on impairment of non-cash-generating assets are outlined below:

#### General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

#### Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 26 (as amended 2015): Impairment of Cash-Generating Assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

#### Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

#### General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### 2. NEW STANDARDS AND INTERPRETATIONS (continued)

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities**

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

	2016 R	2015 R
<b>3. INVENTORIES</b>		
Land to be transferred to beneficiaries	268,800	268,800
Inventories comprise of land on which RDP houses are constructed and are awaiting transfer to the beneficiaries. A register of these properties is maintained by the municipality.		
<b>4. OPERATING LEASE ASSET</b>		
Leases for Land	67,602	93,650
The municipality lets land to tenants under leases covering periods ranging from 3 - 30 years. The leases are subject to escalation clauses as per the lease agreement resulting in straight lining of the rentals received and receivable.		
The amount included above represents the difference between the actual rentals received and the calculated straight line lease.		
The amount of the commitment arising from the operating leases is covered under note 37 of these annual financial statements.		
<b>5. VAT RECEIVABLE</b>		
VAT Input Provision	1,885,080	3,265,649
VAT Output Provision	(157,157)	(165,061)
VAT Receivable from SARS	2,238,250	1,357,947
	<b>3,966,173</b>	<b>4,458,535</b>
<b>6. RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
<b>Gross Balances</b>		
Refuse	1,011,622	1,223,875
Rent	202,075	30,178
Interest on Overdue Accounts	9,861,451	4,171,412
	<b>11,075,148</b>	<b>5,425,465</b>
<b>Less: Allowance for Impairment</b>		
Refuse	(296,600)	(625,059)
Rent	(59,247)	(14,882)
Interest on Overdue Accounts	(2,891,302)	(2,073,607)
	<b>(3,247,149)</b>	<b>(2,713,548)</b>
<b>Net Balance</b>		
Refuse	715,022	598,816
Rent	142,828	15,296
Interest on Overdue Accounts	6,970,149	2,097,805
	<b>7,827,999</b>	<b>2,711,917</b>
<b>Refuse</b>		
0 - 30 days	45,714	6,559
31 - 60 days	41,399	38,344
61 - 90 days	43,074	23,713
91 - 120 days	23,940	33,455
121 - 150 days	21,888	28,233
Over 151 days	835,607	1,093,571
	<b>1,011,622</b>	<b>1,223,875</b>

**NGQUSHWA LOCAL MUNICIPALITY**

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

	2016 R	2015 R
<b>Rent</b>		
0 - 30 days	133,156	5,285
31 - 60 days	9,993	5,285
61 - 90 days	8,737	900
91 - 120 days	4,890	900
121 - 150 days	795	900
Over 151 days	44,504	16,908
	<b>202,075</b>	<b>30,178</b>

<b>Interest on Overdue Accounts</b>		
0 - 30 days	540,659	-
31 - 60 days	565,686	-
61 - 90 days	541,622	(4,280)
91 - 120 days	539,328	-
121 - 150 days	523,696	291,133
Over 151 days	7,150,460	3,884,559
	<b>9,861,451</b>	<b>4,171,412</b>

**7. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

Property Rates	21,831,100	19,494,034
Less: Impairment on Property Rates	(6,400,710)	(9,688,409)
Other Receivables	5,630,996	3,716,423
	<b>21,061,386</b>	<b>13,522,048</b>

<b>Property Rates</b>		
0 - 30 days	2,752,979	658,667
31 - 60 days	114,936	603,948
61 - 90 days	1,028,560	1,043,633
91 - 120 days	121,442	28,763
121 - 150 days	1,810,703	123,433
Over 151 days	16,002,480	17,035,590
	<b>21,831,100</b>	<b>19,494,034</b>

**Summary of Total Debtors (Exchange and Non-Exchange) by Customer Classification**

<b>Residential</b>		
0 - 30 days	1,289,888	134,819
31 - 60 days	182,391	70,922
61 - 90 days	224,789	93,162
91 - 120 days	166,690	72,425
121 - 150 days	163,025	98,441
Over 151 days	4,424,084	3,770,434
	<b>6,450,867</b>	<b>4,240,203</b>
Less: Allowance for Impairment	(4,211,741)	(3,566,108)
	<b>2,239,126</b>	<b>674,095</b>

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	2016 R	2015 R
<b>Business</b>		
0 - 30 days	162,005	79,804
31 - 60 days	155,215	49,756
61 - 90 days	112,204	43,838
91 - 120 days	117,509	53,370
121 - 150 days	85,860	53,803
Over 151 days	2,526,364	1,724,527
	<u>3,159,157</u>	<u>2,005,098</u>
Less: Allowance for Impairment	(1,619,951)	(1,093,026)
	<u>1,539,206</u>	<u>912,072</u>
<b>Government</b>		
0 - 30 days	1,155,462	111,524
31 - 60 days	294,007	114,673
61 - 90 days	1,181,192	84,728
91 - 120 days	307,906	44,128
121 - 150 days	2,020,072	102,648
Over 151 days	12,984,707	8,985,954
	<u>17,943,346</u>	<u>9,443,655</u>
<b>Other</b>		
0 - 30 days	865,154	191,576
31 - 60 days	100,400	124,476
61 - 90 days	103,807	(13,334)
91 - 120 days	97,495	92,671
121 - 150 days	88,125	179,747
Over 151 days	4,097,896	8,655,407
	<u>5,352,877</u>	<u>9,230,543</u>
Less: Allowance for Impairment	(3,816,166)	(7,742,824)
	<u>1,536,711</u>	<u>1,487,719</u>
<b>Total Debtors Past Due but not Impaired - Government</b>		
0 - 30 days	1,155,462	111,524
31 - 60 days	294,007	114,673
61 - 90 days	1,181,192	84,728
91 - 120 days	307,906	44,128
121 - 150 days	2,020,072	102,648
Over 151 days	12,984,707	8,985,953
	<u>17,943,346</u>	<u>9,443,654</u>
<b>Reconciliation of Provision for Impairment</b>		
Opening Provision for Impairment	12,401,958	10,514,046
Movement of Provision for Impairment Current Year	(2,754,099)	1,887,912
Debtors written off by Council	4,717,344	-
Contribution to Impairment	(4,717,344)	-
	<u>9,647,859</u>	<u>12,401,958</u>

# NGQUSHWA LOCAL MUNICIPALITY

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>TOTAL DEBTORS (EXCHANGE AND NON-EXCHANGE)</b>		
Balance Net of Credit Balances	22,407,777	11,282,267
Gross Up of Credit Balances	850,612	1,235,275
Other Receivables	5,630,996	3,716,423
	<b>28,889,385</b>	<b>16,233,965</b>

### 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on Hand	823	823
Bank Balances	662,254	125,834
Investments	537,730	36,974
	<b>1,200,807</b>	<b>163,631</b>

The Municipality had the Following Bank Accounts:

Account number / description	Bank Statement Balances			Cash Book Balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
FNB Main Account - 62022000898	662,254	125,834	232,773	662,254	125,834	229,373
FNB Call Account : Planning - 61684000098	-	-	99,771	-	-	99,771
FNB Call Account Reserve Fund - 62035920596	1,767	1,749	66,373	1,767	1,749	66,373
FNB Equitable Share - 62270666616	-	-	29,784	-	-	29,784
FNB MIG Account - 622770667531	12,260	1,000	6,962,123	12,260	1,000	6,962,123
FNB Small Town Call Account - 62352053301	-	-	1,092	-	-	1,092
FNB MSIG Account - 62414340894	-	-	1,295	-	-	1,295
FNB Rates Account - 62414349763	504,656	31,503	111,113	504,656	31,503	111,113
FNB FMG - 62414356594	-	-	272,091	-	-	272,091
FNB EPWP Call Account - 62414353293	-	-	(196)	-	-	(196)
FNB EPWP - 62414353441	963	1,005	1,048	963	1,005	9,625
FNB Salary Account - 62434762945	-	-	477,937	-	-	477,936
FNB MIG Operating Account - 62437745857	-	-	56,279	-	-	56,279
FNB MSIG Operating Account - 62437829213	-	-	766	-	-	766
FNB FMG Operating Account - 62414358912	1,734	1,717	55,003	1,734	1,717	55,003
FNB MIG - 82270667531	-	-	-	-	-	-
Cash on Hand	-	-	-	823	823	201
FNB Call Account PHP - 62048047494	-	-	245,719	-	-	245,719
FNB Call Account (Short-Term Investment) - 62606330463	16,350	-	-	16,350	-	-
<b>Total</b>	<b>1,199,984</b>	<b>162,808</b>	<b>8,612,971</b>	<b>1,200,807</b>	<b>163,631</b>	<b>8,618,348</b>

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**NGQUSHWA LOCAL MUNICIPALITY**

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Annual Financial Statements for the Year Ended 30 June 2016

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

	2016 R	2015 R
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**9. INTANGIBLE ASSETS**

	2016			2015		
	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying value
Computer Software	1,569,514	(1,003,643)	565,871	1,569,514	(603,997)	965,517

**Reconciliation of Intangible Assets - 30 June 2016**

	Opening balance	Amortisation	Impairment loss	Total
Computer Software	965,517	(284,903)	(114,743)	565,871

**Reconciliation of Intangible Assets - 30 June 2015**

	Opening balance	Additions	Amortisation	Total
Computer Software	1,206,634	64,745	(305,862)	965,517

The municipality amortises all its intangible assets and none of these are regarded as having indefinite useful lives. The useful lives of the intangible assets remain unchanged from the previous year.

Impairment loss amounting to R 114 743 have been recognised on the intangible assets of the municipality at the reporting date.

**10. INVESTMENT PROPERTY**

	2016		2015	
	Cost / Valuation	Carrying value	Cost / Valuation	Carrying value
Investment Property	37,951,900	37,951,900	37,951,900	37,951,900

**Reconciliation of Investment Property - 30 June 2016**

	Opening balance	Closing Balance
Investment Property	37,951,900	37,951,900

**Reconciliation of Investment Property - 30 June 2015**

	Opening Balance	Prior year adjustment	Closing Balance
Investment Property	37,976,900	(25,000)	37,951,900

# NGQUSHWA LOCAL MUNICIPALITY

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Annual Financial Statements for the Year Ended 30 June 2016

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>10. INVESTMENT PROPERTY (continued)</b>		
<b>Details of Property</b>		
<b>Erf 2220 Peddie - Land Extent 4340 square meter</b>		
Land is leased to Engen Petroleum		
- Cost at acquisition	2,888,000	2,888,000
<b>Erf 447 Hamburg - Land Extent 2824ha</b>		
Portion of the Caravan Park Leased to Mrs Dorego.		
- Cost at acquisition	2,050,000	2,050,000
<b>Erf 314 - Land extent 989 square meters</b>		
Land Leased to ANC Constituency		
- Cost at acquisition	91,400	91,400
<b>Erf 1836 - Land extent 488 square meters</b>		
Land Leased to IEC		
- Cost at acquisition	556,700	556,700

All the municipality's properties are held under freehold interest and no investment property has been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisation of Investment Property or the remittance of revenue and the proceeds of disposal.

Valuation of investment property was done by Penny Lindstrom Valuations in 2013, an independent valuer. The valuation, which conforms to international standards, was arrived at by reference to market evidence of transaction prices for similar properties. Valuation is performed every four years and the 4 years have not yet elapsed, therefore the properties have not been revalued.

At the end of the period, these properties were generating an average monthly income of R 17 989 (2015 - R 15 266).

## 11. PROPERTY, PLANT AND EQUIPMENT

	2016			2015		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
Land	7,743,600	-	7,743,600	7,743,600	-	7,743,600
Buildings	69,982,102	(12,024,277)	57,957,825	65,372,404	(9,708,791)	55,663,613
Park Facilities	10,859,516	(1,322,342)	9,537,174	9,215,477	(2,018,862)	7,196,615
Infrastructure	114,141,924	(75,747,561)	38,394,363	104,092,434	(67,527,626)	36,564,808
Other Equipment	168,469	(131,583)	36,886	163,435	(121,373)	42,062
Work in Progress	28,320,369	-	28,320,369	21,716,413	-	21,716,413
Plant and Machinery	19,529,194	(4,944,888)	14,584,306	15,678,121	(4,254,264)	11,423,857
Maintenance Equipment	346,256	(181,403)	164,853	354,848	(228,848)	126,000
Security Equipment	549,785	(380,675)	169,110	549,785	(320,943)	228,842
Motor Vehicles	8,473,771	(3,244,388)	5,229,383	7,411,800	(2,753,057)	4,658,743
Office Equipment	1,255,526	(702,845)	552,681	1,129,161	(598,284)	530,877
Computer Equipment	1,969,351	(1,409,841)	559,510	1,826,124	(1,336,543)	489,581
Furniture and Fixtures	1,499,589	(1,334,416)	165,173	1,476,289	(1,191,092)	285,197
Minor Assets	1,622,352	(1,622,352)	-	1,486,391	(1,486,391)	-
<b>Total</b>	<b>266,461,804</b>	<b>(103,046,571)</b>	<b>163,415,233</b>	<b>238,216,282</b>	<b>(91,546,074)</b>	<b>146,670,208</b>



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Annual Financial Statements for the Year Ended 30 June 2016

	2016 R	2015 R
1. <i>Chlorophyll a</i> (mg/L)	1.2	1.5
2. <i>Chlorophyll b</i> (mg/L)	0.8	1.0
3. <i>Chlorophyll c</i> (mg/L)	0.5	0.7
4. <i>Chlorophyll d</i> (mg/L)	0.3	0.4
5. <i>Chlorophyll e</i> (mg/L)	0.1	0.2
6. <i>Chlorophyll f</i> (mg/L)	0.05	0.1
7. <i>Chlorophyll g</i> (mg/L)	0.02	0.05
8. <i>Chlorophyll h</i> (mg/L)	0.01	0.03
9. <i>Chlorophyll i</i> (mg/L)	0.005	0.01
10. <i>Chlorophyll j</i> (mg/L)	0.002	0.005
11. <i>Chlorophyll k</i> (mg/L)	0.001	0.002
12. <i>Chlorophyll l</i> (mg/L)	0.0005	0.001
13. <i>Chlorophyll m</i> (mg/L)	0.0002	0.0005
14. <i>Chlorophyll n</i> (mg/L)	0.0001	0.0002
15. <i>Chlorophyll o</i> (mg/L)	0.00005	0.0001
16. <i>Chlorophyll p</i> (mg/L)	0.00002	0.00005
17. <i>Chlorophyll q</i> (mg/L)	0.00001	0.00002
18. <i>Chlorophyll r</i> (mg/L)	0.000005	0.00001
19. <i>Chlorophyll s</i> (mg/L)	0.000002	0.000005
20. <i>Chlorophyll t</i> (mg/L)	0.000001	0.000002
21. <i>Chlorophyll u</i> (mg/L)	0.0000005	0.000001
22. <i>Chlorophyll v</i> (mg/L)	0.0000002	0.0000005
23. <i>Chlorophyll w</i> (mg/L)	0.0000001	0.0000002
24. <i>Chlorophyll x</i> (mg/L)	0.00000005	0.0000001
25. <i>Chlorophyll y</i> (mg/L)	0.00000002	0.00000005
26. <i>Chlorophyll z</i> (mg/L)	0.00000001	0.00000002
27. <i>Chlorophyll aa</i> (mg/L)	0.000000005	0.00000001
28. <i>Chlorophyll ab</i> (mg/L)	0.000000002	0.000000005
29. <i>Chlorophyll ac</i> (mg/L)	0.000000001	0.000000002
30. <i>Chlorophyll ad</i> (mg/L)	0.0000000005	0.000000001
31. <i>Chlorophyll ae</i> (mg/L)	0.0000000002	0.0000000005
32. <i>Chlorophyll af</i> (mg/L)	0.0000000001	0.0000000002
33. <i>Chlorophyll ag</i> (mg/L)	0.00000000005	0.0000000001
34. <i>Chlorophyll ah</i> (mg/L)	0.00000000002	0.00000000005
35. <i>Chlorophyll ai</i> (mg/L)	0.00000000001	0.00000000002
36. <i>Chlorophyll aj</i> (mg/L)	0.000000000005	0.00000000001
37. <i>Chlorophyll ak</i> (mg/L)	0.000000000002	0.000000000005
38. <i>Chlorophyll al</i> (mg/L)	0.000000000001	0.000000000002
39. <i>Chlorophyll am</i> (mg/L)	0.0000000000005	0.000000000001
40. <i>Chlorophyll an</i> (mg/L)	0.0000000000002	0.0000000000005
41. <i>Chlorophyll ao</i> (mg/L)	0.0000000000001	0.0000000000002
42. <i>Chlorophyll ap</i> (mg/L)	0.00000000000005	0.0000000000001
43. <i>Chlorophyll aq</i> (mg/L)	0.00000000000002	0.00000000000005
44. <i>Chlorophyll ar</i> (mg/L)	0.00000000000001	0.00000000000002
45. <i>Chlorophyll as</i> (mg/L)	0.000000000000005	0.00000000000001
46. <i>Chlorophyll at</i> (mg/L)	0.000000000000002	0.000000000000005
47. <i>Chlorophyll au</i> (mg/L)	0.000000000000001	0.000000000000002
48. <i>Chlorophyll av</i> (mg/L)	0.0000000000000005	0.000000000000001
49. <i>Chlorophyll aw</i> (mg/L)	0.0000000000000002	0.0000000000000005
50. <i>Chlorophyll ax</i> (mg/L)	0.0000000000000001	0.0000000000000002
51. <i>Chlorophyll ay</i> (mg/L)	0.00000000000000005	0.0000000000000001
52. <i>Chlorophyll az</i> (mg/L)	0.00000000000000002	0.00000000000000005
53. <i>Chlorophyll ba</i> (mg/L)	0.00000000000000001	0.00000000000000002
54. <i>Chlorophyll bb</i> (mg/L)	0.000000000000000005	0.00000000000000001
55. <i>Chlorophyll bc</i> (mg/L)	0.000000000000000002	0.000000000000000005
56. <i>Chlorophyll bd</i> (mg/L)	0.000000000000000001	0.000000000000000002
57. <i>Chlorophyll be</i> (mg/L)	0.0000000000000000005	0.000000000000000001
58. <i>Chlorophyll bf</i> (mg/L)	0.0000000000000000002	0.0000000000000000005
59. <i>Chlorophyll bg</i> (mg/L)	0.0000000000000000001	0.0000000000000000002
60. <i>Chlorophyll bh</i> (mg/L)	0.00000000000000000005	0.0000000000000000001
61. <i>Chlorophyll bi</i> (mg/L)	0.00000000000000000002	0.00000000000000000005
62. <i>Chlorophyll bj</i> (mg/L)	0.000000000	

## Reconciliation of Property, Plant and Equipment - 30 June 2016

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# **NGQUSHWA LOCAL MUNICIPALITY**

(Registration number EC126)  
Annual Financial Statements for the Year Ended 30 June 2016

## **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

		2016	2015					
		R	R					
11. PROPERTY, PLANT AND EQUIPMENT (continued)								
Reconciliation of Property, Plant and Equipment - 30 June 2015								
	Opening balance	Additions	Other Changes and Movements	Transfers	Depreciation	Impairment	Prior Year Adjustment	Total
Land	7,743,600	-	-	-	-	-	-	7,743,600
Buildings	50,644,650	-	-	5,963,253	(2,058,028)	(7,740)	1,121,478	55,663,613
Park Facilities	4,304,967	-	-	3,330,948	(439,300)	-	-	7,196,615
Infrastructure	42,473,948	-	-	7,493,487	(13,973,393)	-	570,766	36,564,808
Other Equipment	47,286	24,687	-	-	(12,028)	-	(17,883)	42,062
Work in Progress	13,799,076	26,041,138	-	(16,787,688)	-	-	(1,336,113)	21,716,413
Plant and Machinery	13,050,576	-	-	-	(1,491,381)	(152,757)	17,419	11,423,857
Maintenance Equipment	159,522	-	(1,841)	-	(31,681)	-	-	126,000
Security Equipment	310,980	-	-	-	(67,900)	-	(14,238)	228,842
Motor Vehicles	5,446,652	-	-	-	(746,610)	(42,446)	1,147	4,658,743
Office Equipment	485,543	192,732	1,974	-	(149,368)	-	(4)	530,877
Computer Equipment	640,780	312,814	22,254	-	(379,869)	-	(106,398)	489,581
Furniture and Fixtures	418,431	11,087	-	-	(144,341)	-	20	285,197
Minor Assets	-	84,708	(22,387)	-	(62,321)	-	-	-
TOTAL	139,526,011	26,667,166	-	-	(19,556,220)	(202,943)	236,194	146,670,208

### **Pledged as Security**

Included in plant and machinery are leased assets with a carrying amount R 14 217 732 (2015 - R 11 230 589). The leased assets are held as a security by the financier.

Included in Infrastructure is an amount for Landfill Site with a carrying value of R 160 870 (2015 - R 162 654).

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the Year Ended 30 June 2016

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
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### 12. HERITAGE ASSETS

	2016			2015		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Historical Monuments	3	-	3	3	-	3

#### Reconciliation of Heritage Assets - 30 June 2016

	Opening balance	Total
Historical Monuments	3	3

#### Reconciliation of Heritage Assets - 30 June 2015

	Opening balance	Prior Year Adjustment	Total
Historical Monuments	2	1	3

All the municipality's heritage assets are held under a freehold interest and no heritage asset have been pledged as security for any liabilities of the municipality.

The heritage assets comprise of the Dick King Memorial Site, a Fingo Milkwood Tree and Fort Peddie Tower Complex. These are not income generating assets and shown on the face of the statement of financial position at a nominal value of R1 each.

No impairment losses have been recognised on the heritage assets of the municipality at the reporting date.

These heritage assets have not been revalued due to them not generating any economic benefit for the municipality as a result valuing the assets will not yield any economic benefit for the municipality as the costs of valuing are higher than the benefit derived from these assets.

# NGQUSHWA LOCAL MUNICIPALITY

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Annual Financial Statements for the Year Ended 30 June 2016

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>13. FINANCE LEASE OBLIGATION</b>		
<b>Minimum lease payments due</b>		
- within one year	8,609,460	5,082,222
- in second to fifth year inclusive	8,609,460	3,388,150
	17,218,920	8,470,372
Less: Future Finance Charges	(5,437,108)	(1,173,517)
	<b>11,781,812</b>	<b>7,296,855</b>
<b>Present Value of Minimum Lease Payments Due</b>		
- within one year	4,761,551	4,121,498
- in second to fifth year inclusive	7,020,261	3,175,357
	<b>11,781,812</b>	<b>7,296,855</b>
<b>Non-Current Liabilities</b>	7,020,261	3,175,357
<b>Current Liabilities</b>	4,761,551	4,121,498
	<b>11,781,812</b>	<b>7,296,855</b>

It is the municipality's policy to lease certain plant under a finance lease.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets with a carrying value of R 14 217 732 (2015 - R 11 230 589).

The lease term is 3 years at a fixed borrowing rate of 9.25% linked to prime rate prevalent at the inception of the lease on 01 July 2015. Leases have fixed repayment terms. No arrangements have been entered into for contingent rent.

### 14. PAYABLES FROM EXCHANGE TRANSACTIONS

Trade Payables	19,781,207	16,614,932
Accrued Bonus	2,474,905	1,050,097
Accrued Leave Pay	3,012,453	2,483,282
Retentions	931,940	571,877
	<b>26,200,505</b>	<b>20,720,188</b>

Included in trade and other payables is a balance for Amathole District Municipality amounting to R 15 020 192 (2015 - R 20 712 806).

### 15. UNSPENT CONDITIONAL GRANTS

There are no unspent conditional grants in the current and prior year.

### 16. PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Unallocated Deposit	1,000,100	1,000,100
Receivables with Credit Balances	850,612	1,235,275
	<b>1,850,712</b>	<b>2,235,375</b>

Unallocated deposit refers to funds which the Municipality received in the 2012/13 financial period but could not allocate as the source of the funds nor their purpose could not be established. To date, the purpose of the funds has not been ascertained although the source was found to be the Department of Roads.

# **NGQUSHWA LOCAL MUNICIPALITY**

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Annual Financial Statements for the Year Ended 30 June 2016

## **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

	2016 R	2015 R
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### **17. PROVISIONS**

#### **Reconciliation of Provisions - 30 June 2016**

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Provision for Rehabilitation of Landfill Sites	181,811	-	-	3,420	185,231
Provision for Long Service Awards	2,309,000	626,000	(272,000)	-	2,663,000
	<b>2,490,811</b>	<b>626,000</b>	<b>(272,000)</b>	<b>3,420</b>	<b>2,848,231</b>

#### **Reconciliation of Provisions - 30 June 2015**

	Opening Balance	Additions during the year	Utilised during the year	Actuarial Gains	Change in discount factor	Adjustment to opening liability	Total
Provision for Rehabilitation of Landfill Sites	178,466	-	-	-	3,345	-	181,811
Provisions for Long Service Awards	1,846,724	458,000	(278,000)	(191,000)	-	473,276	2,309,000
	<b>2,025,190</b>	<b>458,000</b>	<b>(278,000)</b>	<b>(191,000)</b>	<b>3,345</b>	<b>473,276</b>	<b>2,490,811</b>

#### **Rehabilitation of Landfill Sites Provision**

The Provision for Rehabilitation of Landfill Sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation. The amount for the provision was adjusted retrospectively in accordance with the report produced by qualified engineers from the Department of Local Government.

# NGQUSHWA LOCAL MUNICIPALITY

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Annual Financial Statements for the Year Ended 30 June 2016

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>17. PROVISIONS (continued)</b>		
<b>Long Service Award Provision</b>		
The Long Service Award is payable after every 5, 10, 15, 20, 25 years of continuous service. The provision is an estimate of the amounts likely to be paid based on an actuarial valuation performed at the reporting date.		
The actuarial valuation of the long service awards accrued liability was carried out by ZAQ Consultants and Actuaries. The assumptions used in the valuation are outlined below:		
<b>Key Assumptions:</b>		
1. Salary increase rate of 6%.		
2. The mortality rate of SA 85 - 90.		
3. Normal retirement age of 65 years.		
4. The discount rate used was yield curve as at 30 June 2016 as supplied by the Johannesburg Stock Exchange.		
<b>18. ACCUMULATED SURPLUS</b>		
Included in the accumulated surplus is an amount of R 2 624 709 which relates to transactions that were posted against the Accumulated Surplus account in the current year of assessment. These include amounts that should have been transacted in the prior years into their respective income and expense accounts.		
These include and are not limited to the following:		
- Billings not raised in prior years,		
- Correction of errors on invoices.		
<b>19. SERVICE CHARGES</b>		
Refuse Removal	571,929	535,518
<b>20. LICENCES AND PERMITS</b>		
Drivers Licence	1,501,622	1,528,213
Learners Licence	137,228	147,348
	<b>1,638,850</b>	<b>1,675,561</b>
<b>21. RENTAL OF FACILITIES AND EQUIPMENT</b>		
Land and Halls		
Various Rentals	185,495	221,196
Facilities and Equipment		
Billboards	7,433	3,878
	<b>192,928</b>	<b>225,074</b>

At the end of the financial year, the properties were generating monthly income of R 17 989 (2015 - R 15 266).

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	2016 R	2015 R
<b>22. OTHER REVENUE</b>		
Tender Fees	108,828	119,954
Sundry Income	67,421	19,346
Photocopies	650	-
Building Plan Fees	61,860	25,439
Insurance Claim for Loss of Property, Plant and Equipment	30,396	43,779
	<b>269,155</b>	<b>208,518</b>

Sundry Income includes income from Cemetery Fees and Commission Collection.

### 23. INTEREST EARNED - OUTSTANDING DEBTORS

Interest Earned - Outstanding Debtors	3,277,506	2,436,854
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### 24. INTEREST REVENUE

Interest on Investments	1,255,184	820,414
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### 25. PROPERTY RATES

Gross Property Rates	18,946,302	12,932,176
Less: Rebates	(1,809,226)	(2,210,339)
	<b>17,137,076</b>	<b>10,721,837</b>

#### Valuations

Residential	320,508,301	320,508,301
Commercial	84,489,000	84,489,000
State	228,507,387	228,507,387
Municipal	84,174,808	84,174,808
Small Holdings and Farms	46,010,000	46,010,000
Place Of Worship	2,396,000	2,396,000
Farms Non-Agricultural	13,711,801	13,711,801
Vacant Land	7,817,718	7,817,718
Game Hunting	6,300,000	6,300,000
	<b>793,915,015</b>	<b>793,915,015</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates applied to property valuations to determine assessment rates were established by the Council on various usage categories as per the municipality's rates policy. These rate tariffs were published and can be inspected at the municipality's registered address. Rebates of 43% (2015 43%) are granted to residential and state property owners.

The new general valuation will be implemented on 01 July 2017.

# NGQUSHWA LOCAL MUNICIPALITY

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>26. GOVERNMENT GRANTS</b>		
Equitable Share	82,854,000	71,805,000
Expanded Public Works Programme	1,000,000	1,000,000
Municipal Infrastructure Grant	23,484,000	27,454,055
Financial Management Grant	1,875,000	1,800,000
Municipal Systems Improvement Grant	930,000	934,000
National Sport and Recreation Grant	-	3,161,006
Library Grant	200,000	200,000
	<b>110,343,000</b>	<b>106,354,061</b>

### Conditional and Unconditional Grants

Included in the above are the following grants and subsidies received:

Conditional Grants Received	27,289,000	34,349,061
Unconditional Grants Received	83,054,000	72,005,000
	<b>110,343,000</b>	<b>106,354,061</b>

### Equitable Share

In terms of Section 227 of the Constitution, this grant is used to enable the municipality to provide basic services and perform functions allocated to it.

The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

### Expanded Public Works Programme

Current period receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,000)
	-	-

The grant was received from National Roads and Public Works.

The grant was used for stipends for unemployed youths.

### Municipal Infrastructure Grant

Balance unspent at beginning of period	-	5,571,055
Current period receipts	23,484,000	22,755,000
Conditions met - transferred to revenue	(23,484,000)	(27,454,055)
Prior year adjustment	-	(872,000)
	-	-

The grant was received from National Treasury.

The grant was used for construction of community halls and extension of access roads.



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	2016 R	2015 R
<b>26. GOVERNMENT GRANTS (continued)</b>		
<b>Financial Management Grant</b>		
Current period receipts	1,875,000	1,800,000
Conditions met - transferred to revenue	(1,875,000)	(1,800,000)
	-	-

The grant was received from National Treasury.

This grant was used to pay stipends for Financial Management Interns and Budget and Treasury Office related expenditure.

### Municipal Systems Improvement Grant

Current period receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	-	-

The grant was received from Provincial Co-operative Governance and Traditional Affairs.

The grant was used to pay for public participation activities and for the maintenance of systems.

### Library Grant

Receipts	200,000	200,000
Conditions met - transferred to revenue	(200,000)	(200,000)
	-	-

The grant was received from the Department of Sport, Recreation, Arts and Culture.

This grant was used to support the maintenance of the library.

### National Sport and Recreation Grant

Current period receipts	-	3,161,006
Conditions met - transferred to revenue	-	(3,161,006)
	-	-

The grant was received from National Sports and Recreation for the building of sportsfields for communities.

### Integrated National Electrification Programme

Current-year receipts	4,364,000	2,697,000
Contribution made to households	(4,364,000)	(2,697,000)
	-	-

This is a grant in-kind received from National Treasury for Electrification of Household by Eskom. Eskom does the work on behalf of the municipality and transfers directly to the beneficiary, no payments are made by the municipality nor receipts of cash are directed to the municipality.

## 27. OTHER TRANSFER REVENUE

CETA	2,060,146	59,363
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# NGQUSHWA LOCAL MUNICIPALITY

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Annual Financial Statements for the Year Ended 30 June 2016

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>28. EMPLOYEE RELATED COSTS</b>		
Acting Allowances	500,093	1,494,364
Annual Bonus	3,547,476	2,237,015
Cellphone Allowance	346,587	247,507
UIF	258,108	236,454
Basic Salaries	31,511,768	30,105,993
Housing Allowances	110,457	40,152
Gratuity	4,605	-
Medical Aid Contributions	1,891,968	1,577,826
Pension Fund Contributions	4,666,807	4,170,670
Long Service Bonus	462,225	326,247
Subsistence and Travel	3,023,747	1,525,938
SALGA Levies	15,457	15,584
Overtime	296,462	232,274
Redemption of Leave	749,950	838,295
Shift Allowance	19,173	-
SDL	391,922	381,930
	<b>47,796,803</b>	<b>43,430,249</b>

The amounts below have been included in the above note:

### Remuneration of Municipal Manager

Basic Salary	1,105,380	589,357
Backpay	37,380	-
SDL	11,473	7,722
UIF	1,785	1,041
Travel Expenses	15,917	182,836
	<b>1,171,935</b>	<b>780,956</b>

### Remuneration of Chief Finance Officer

Basic Salary	552,691	358,000
Travel Expenses	227,710	246,012
SDL	9,153	5,745
UIF	1,785	1,190
Cellphone Allowance	26,285	19,200
Backpay	31,150	-
Non-Pensionable Allowance	156,948	-
	<b>1,005,722</b>	<b>630,147</b>

### Remuneration of Executive Manager: Corporate Services

Basic Salary	772,236	954,190
Backpay	48,063	-
Travel Expenses	154,758	-
SDL	9,130	2,871
UIF	1,785	1,785
Medical Aid	-	15,702
	<b>985,972</b>	<b>974,548</b>

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>28. EMPLOYEE RELATED COSTS (continued)</b>		
<b>Remuneration of Executive Manager: Technical Services</b>		
Basic Salary	639,150	178,000
Back Pay	31,150	-
Travel Expenses	332,683	48,000
SDL	8,604	2,871
UIF	1,785	595
Cellphone Allowance	63,000	24,000
Pension and Gratuity	-	46,694
	<b>1,076,372</b>	<b>300,160</b>

### Remuneration of Executive Acting Manager: Community Services

Basic Salary	394,009	385,868
Travel Expenses	66,889	62,291
SDL	6,299	2,914
UIF	1,785	1,223
Pension	68,937	31,495
Acting Allowance	143,671	345,922
Housing and Cellphone Allowance	19,207	106,637
	<b>700,797</b>	<b>936,350</b>

### 29. REMUNERATION OF COUNCILLORS

Mayor	791,263	743,363
Speaker	647,136	601,266
Chief Whip	255,514	334,940
MPAC	320,710	315,892
Public Relations	1,369,897	1,286,717
Other Councillors	4,373,817	3,941,705
	<b>7,758,337</b>	<b>7,223,883</b>

The Remuneration of Councillors is based on the upper limit as per the Government Gazette.

The Mayor and Speaker each have the use of a separate Council owned vehicle, with a designated driver for the Mayor for official duties, and are provided with an office and secretarial support at the cost of the Council.

There were no in-kind benefits declared nor received by other Councillors.

### 30. DEPRECIATION AND AMORTISATION

Property, Plant and Equipment	13,049,335	19,556,220
Property, Plant and Equipment Adjustment	-	113,655
Intangible Assets	284,903	305,862
	<b>13,334,238</b>	<b>19,975,737</b>

The depreciation for 2015 was adjusted with an increase of R 113 655 resulting to the restated amount of R 19 975 737. This adjustment is included in the Prior Period Error note disclosure on note 39.

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>31. IMPAIRMENT OF ASSETS</b>		
Property, Plant and Equipment	203,302	202,943
During the year, items of property, plant and equipment were impaired due to loss and damage of assets. The recoverable amount of the assets impaired is zero together with the fair value less cost to sell which was found to be zero.		
Property, Plant and Equipment Adjustment	-	9,038
During the previous year, items of property, plant and equipment were impaired due to loss and damage of assets. The recoverable amount of the assets impaired is zero together with the fair value less cost to sell which was found to be zero.		
Intangible Assets	114,743	-
During the year, items of intangible assets were impaired as no future economic benefits that could be derived from the assets. The value in use of the assets impaired is zero together with the fair value less cost to sell which was found to be zero.		
	<b>318,045</b>	<b>211,981</b>
The main classes of assets affected by impairment losses are: Motor Vehicles, Office Equipment, Computer Equipment and Computer Software.		
<b>32. FINANCE COSTS</b>		
Finance Lease	3,652,463	1,497,383
Interest on Long Service Bonus	-	181,000
Late Payment of Suppliers	22,675	3,943
	<b>3,675,138</b>	<b>1,682,326</b>
<b>33. DEBT IMPAIRMENT</b>		
Debt Impairment	1,963,245	1,887,912
Debt impairment is an assessment of the amounts that will not be recovered from the debtors, based on the municipality's policy.		
<b>34. REPAIRS AND MAINTENANCE</b>		
Repairs and Maintenance - Infrastructure	732,441	49,847
Repairs and Maintenance - Motor Vehicles	553,436	552,627
Repairs and Maintenance - Buildings	273,527	91,675
Repairs and Maintenance - Park Facilities	11,096	12,887
Repairs and Maintenance - Office Equipment	689,128	2,992
Repairs and Maintenance - Other Equipment	1,551,379	615,262
	<b>3,811,007</b>	<b>1,325,290</b>

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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>35. OTHER EXPENDITURE</b>		
Accommodation Expenses	2,150,413	1,589,780
Advertising	540,623	578,955
Agriculture	339,407	624,737
Audit Committee Expenses	227,842	340,958
Audit Fees	4,133,775	2,205,149
Auditors Remuneration	-	9,650
Bank Charges	84,292	77,047
Books and Publications	52,794	89,822
Catering	264,729	308,392
Computer Expenses	67,287	117,096
Conferences and Seminars	124,102	95,255
Consultation and Professional Fees	6,947,308	4,444,606
Consumables	163,085	186,103
Electricity	2,896,161	2,717,387
Employee Assistance Programme	145,920	125,454
Entertainment	83,729	98,497
Fuel and Oil	876,992	1,258,085
Health and Safety Equipment	291,039	694,668
Hire of Equipment	3,691,460	12,828
IDP Reviewal	315,780	204,906
Legal Expenses	2,795,988	1,202,113
Life Saviour Hire	179,458	260,302
Motor Vehicle Expenses	88,136	162,465
Miscellaneous Expenses	2,352,662	856,844
Printing and Stationery	361,575	360,993
Programmes	2,545,379	2,054,237
Public Participation	272,418	375,095
Refuse	146,144	142,920
Royalties and License Fees	-	200,570
SPU	607,176	710,165
Subscriptions and Membership Fees	18,864	396,500
Telephone	705,029	692,835
Tourism Development	312,229	297,785
Training	934,007	693,894
Travel Local	34,751	444,704
Uniforms	251,870	304,203
Valuation Costs	11,520	-
Water Municipal Use	5,124,182	5,285,159
Ward Committee Expenses	1,708,000	131,583
	<b>41,846,126</b>	<b>30,351,742</b>

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>36. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus for the year	16,956,825	18,206,044
Adjustments for:		
Depreciation and Amortisation	13,334,238	19,975,737
Impairment of Assets	318,045	211,981
Re-measurement of Long Service Bonus	-	(191,000)
Debt Impairment	1,963,245	1,887,192
Loss on Disposal of Assets	224,883	-
Movement in Accrued Bonus	1,424,808	211,647
Movement in Long-Service Bonus	354,000	444,276
Movement on Accrued Leave Pay	529,171	485,212
Interest on Long-Service Bonus	-	181,000
Movements in Operating Lease Asset	26,048	(88,280)
Movements in Provision for Rehabilitation of Landfill Sites	3,420	3,345
Current Service Costs	-	458,000
Changes in working capital:		
VAT Receivable	492,636	(323,879)
Receivables from Exchange Transactions	(5,116,082)	(709,667)
Receivables from Non-Exchange Transactions	(7,539,338)	(3,163,499)
Payables from Exchange Transactions	3,166,275	(11,071,819)
Retentions	360,063	(1,076,258)
Payables from Non-Exchange Transactions	(384,663)	(284,816)
Unspent Conditional Grants	-	(5,571,054)
	<b>26,113,574</b>	<b>19,584,162</b>

## 37. COMMITMENTS

### Authorised Capital Expenditure

#### Already contracted for but not provided for:

• Property, Plant and Equipment	31,346,162	8,096,930
• Intangible Assets	259,136	-
	<b>31,605,298</b>	<b>8,096,930</b>

This committed expenditure relates to Property, Plant and Equipment and Intangible Assets and will be financed by Municipal Grants.

### Operating Lease Asset

#### Minimum lease payments receivable:

- within one year	119,124	159,608
- in second to fifth year inclusive	621,269	622,401
- later than five years	1,160,750	1,278,742
	<b>1,901,143</b>	<b>2,060,751</b>

Certain of the municipality's equipment is held to generate rental income. Rental of land is subject to various escalation rates as per the lease agreements on an ongoing basis. Lease agreements are cancellable and have terms from 3 to 30 years. There are no contingent rents receivable.

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### 38. CONTINGENCIES

Contingencies arise from pending litigation on contractual disputes and damage claims. As the conclusion of the process is dependent on the setting of the dates by the respective courts, the timing of the economic outflow is therefore uncertain.

**Dlelanga Trading CC vs Ngqushwa Local Municipality** - A claim by Dlelanga Trading CC based on a dispute for services rendered.

**Nosizwe Madlingozi obo Sesona Manyathi vs Ngqushwa Local Municipality** - A claim by Nosizwe Madlingozi obo Sesona Manyathi for damages sustained by a minor on the municipal owned sports field. In this matter, the municipal insurers have been notified.

**Masincedisane vs Ngqushwa Local Municipality** - A claim by Masincedisane 9999 CC based on alleged breach of contract.

#### Contingent Liabilities

The table below summarises the potential financial impact of the law suits:

	R
Dlelanga Trading CC vs Ngqushwa Local Municipality (Dispute for services rendered)	770,970
Nosizwe Madlingozi obo Sesona Manyathi vs Ngqushwa Local Municipality (Damages sustained)	1,502,180
Masincedisane vs Ngqushwa Local Municipality (Alleged breach of contract)	61,582
	<u>2,334,732</u>

### 39. PRIOR PERIOD ERRORS

During the year the following errors were discovered in both the annual financial statements submitted in the prior year and the financial accounting system. These errors have been corrected retrospectively through restatements of prior year through journals in the financial accounting system and through correcting the misrepresented prior year column on the annual financial statements.

**OPERATING LEASE ASSET (LIABILITY) AND RENTAL OF FACILITIES AND EQUIPMENT:** The straight lining of the lease in the prior year was done incorrectly. Therefore the error was corrected in the current year.

**VAT RECEIVABLE:** The amount reflected in the annual financial statements did not agree with the statement from SARS and the correction was done to agree the annual financial statements with SARS.

**RECEIVABLES FROM EXCHANGE TRANSACTIONS:** The error was a result of a non-allocation of receipts to the customers account but were incorrectly allocated to payables from exchange transactions. This error was corrected by allocating the receipts to the customers account.

**RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS:** There was incorrect mapping of receivables with credit balances which were mapped under receivables and also payables with debit balances which were mapped in payables. These were corrected through mapping of accounts to the correct line item. Furthermore, incorrect billing was done in the prior year and this has since been corrected.

**INVESTMENT PROPERTY:** There were properties that were incorrectly included in the investment property and should have been derecognised in the prior year. The error was corrected through restating the comparative.

# NGQUSHWA LOCAL MUNICIPALITY

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
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### 39. PRIOR PERIOD ERRORS (continued)

**PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION:** The allocation of depreciation was overstated and the figures did not agree with the asset register. Furthermore the general ledger did not agree to the amounts reflected on the financial statements. There were completed projects which were not capitalised from Work - in - Progress to Infrastructure or Buildings. This error was corrected by agreeing the asset register to the annual financial statements and capitalising completed projects.

**HERITAGE ASSETS:** A heritage asset was erroneously classified under property, plant and equipment and was since re-classified to heritage assets and a reversal of the depreciation charge on the property, plant and equipment had occurred.

**PAYABLES FROM EXCHANGE TRANSACTIONS and REPAIRS AND MAINTENANCE:** Expenses relating to repairs and maintenance were incurred but were only paid after year end, these were not accrued for therefore this correction was to accrue for these expenses. The water accrual was incorrectly stated in the prior year and was since corrected through restatement of the prior year.

**UNSPENT GRANTS AND INCOME FROM GOVERNMENT GRANTS:** The library grant was incorrectly accounted for as an unspent conditional grant and not receipted directly to income, an adjustment of the amount not spent as at year-end was then transferred to income.

**FINES AND PENALTIES:** The fines were understated in the prior year and this error was corrected through restatement of prior year balances.

**EMPLOYEE RELATED COSTS:** The cost of acting allowances was overstated in the prior year due to incorrect application of the acting allowance policy. The error has since been corrected through restatement of the prior year. Furthermore there was incorrect mapping that had occurred, these amounts were since correctly mapped to the correct line item on the financial statements.

**REMUNERATION OF COUNCILLORS:** The amount per the annual financial statements did not agree to the VIP Payroll report resulting in an overstatement. This has since been corrected through restatement of the prior year. Furthermore, there was incorrect mapping that had occurred and these amounts have since been correctly mapped to the correct line item on the financial statements.

**IMPAIRMENT OF ASSETS:** The impairment of assets was included in the depreciation and amortisation and not separately disclosed in the prior year.

**DEBT IMPAIRMENT:** The total impairment was provided for, instead of the movement between prior year and current year. This correction was made in the financial accounting system to correctly reflect the movement of the total impairment.

**OTHER EXPENDITURE:** The error occurred in the annual financial statements due to the mapping of the accounts under incorrect line items and were incorrectly processed in the general ledger. This correction was done through correct mapping on the annual financial statements and an adjustments of the amount not included.

**ADJUSTMENT INCORRECTLY STATED:** An amount of R 396 909 was incorrectly included in the statement of changes in net assets and this amount has since been removed from the statement.

**CASHFLOW STATEMENT:** The cashflow statement could not be recomputed due to not being able to trace the numbers. Therefore the prior year cashflow statement was re-done completely.

The correction of the error(s) resulted in adjustments as follows:



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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

			2016 R	2015 R	
39. PRIOR PERIOD ERRORS (continued)					
		Previously stated	Reclassificatio n of Accounts	Correction of error	Restated
STATEMENT OF FINANCIAL POSITION					
CURRENT ASSETS					
Operating Lease Asset	4	27,047	-	66,603	93,650
VAT Receivable	5	8,514,817	-	(4,056,282)	4,458,535
Receivables from Exchange Transactions	6	2,688,444	-	23,473	2,711,917
Receivables from Non-Exchange Transactions	7	11,847,192	-	1,674,856	13,522,048
		<b>23,077,500</b>	<b>-</b>	<b>(2,291,350)</b>	<b>20,786,150</b>
NON-CURRENT ASSETS					
Investment Property	10	37,976,900	-	(25,000)	37,951,900
Property, Plant and Equipment	11	146,434,014	-	236,194	146,670,208
Heritage Assets	12	2	-	1	3
		<b>184,410,916</b>	<b>-</b>	<b>211,195</b>	<b>184,622,111</b>
CURRENT LIABILITIES					
Payables from Exchange Transactions	14	35,289,551	-	(14,569,363)	20,720,188
Unspent Conditional Grants	15	53,285	-	(53,285)	-
		<b>35,342,836</b>	<b>-</b>	<b>(14,622,648)</b>	<b>20,720,188</b>
NET ASSETS					
Accumulated Surplus		161,520,487	-	12,542,493	174,062,980
		<b>161,520,487</b>	<b>-</b>	<b>12,542,493</b>	<b>174,062,980</b>
STATEMENT OF FINANCIAL PERFORMANCE					
REVENUE					
REVENUE FROM EXCHANGE TRANSACTIONS					
Rental of Facilities and Equipment	21	131,424	-	93,650	225,074
Government Grants	26	106,300,775	-	53,286	106,354,061
Fines and Penalties		146,941	-	586,008	732,949
Total Revenue		<b>106,579,140</b>	<b>-</b>	<b>732,944</b>	<b>107,312,084</b>
Expenditure					
Employee Related Costs	28	44,968,112	(526,182)	(1,011,681)	43,430,249
Remuneration of Councillors	29	8,169,214	530,959	(1,476,290)	7,223,883
Depreciation and Amortisation	30	20,065,022	(202,943)	113,658	19,975,737
Impairment of Assets	31	-	202,943	9,038	211,981
Finance Costs	32	1,501,326	-	181,000	1,682,326
Debt Impairment	33	12,668,222	-	(10,780,310)	1,887,912
Repairs and Maintenance	34	957,132	37,557	330,601	1,325,290
Other Expenditure	35	30,638,770	(42,334)	(244,694)	30,351,742
Total Expenditure		<b>118,967,798</b>	<b>-</b>	<b>(12,878,678)</b>	<b>106,089,120</b>
Remeasurement of Long-Service Bonus		-	-	(191,000)	(191,000)
Adjustments incorrectly stated in 2013/2014		-	-	(396,909)	(396,909)
TOTAL ADJUSTMENTS		-	-	<b>(1,650,738)</b>	<b>(1,650,738)</b>

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

			2016 R	2015 R
<b>39. PRIOR PERIOD ERRORS (continued)</b>				
<b>CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016</b>				
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Billed Services	11,861,655	-	(3,797,115)	8,064,540
Other Services	59,363	-	2,907,264	2,966,627
Payments				
Payments to Employees	(45,330,885)	-	(6,464,382)	(51,795,267)
Payments to Suppliers	(40,949,262)	-	1,195,430	(39,753,832)
Impairment of Assets	(10,515,064)	-	10,515,064	-
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Purchase of Property, Plant and Equipment	11 (22,315,174)	-	(4,351,992)	(26,667,166)
Proceeds from Insurance Claim for Loss of Property, Plant and Equipment	22 -	-	43,779	43,779

## 40. RISK MANAGEMENT

### Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's approach to managing the liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when they fall due, without incurring unacceptable losses or risking damage to the municipality's reputation.

The municipality manages liquidity risk through an ongoing review of future commitments and grant receipts.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

### Interest rate risk

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with South African prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

The municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing assets.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer to note 8.

Any change in interest rates will not have any impact on the accumulated surplus of the municipality.

At period end financial assets exposed to interest rate risk were as follows:

Cash and Cash Equivalents - R 1 200 807 (2015 - R 163 631)

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>40. RISK MANAGEMENT (continued)</b>		
<b>Credit risk</b>		
<p>Credit risk is the risk of financial loss to the municipality if customers or counterparties to financial instruments fail to meet their contractual obligations and arises principally from the municipality's receivables, and cash and cash equivalents. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.</p> <p>Receivables are amounts owing by consumers and are presented net of impairment losses. Receivables comprise a widespread customer base. Management evaluated credit risk relating to these customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the group of customers, taking into account their financial position, past experience and other factors.</p> <p>Financial instruments exposed to credit risk at current period end were as follows:</p>		
<b>Financial instrument</b>		
Receivables from Exchange Transactions	7,827,999	2,711,917
Receivables from Non-Exchange Transactions	21,095,865	13,067,673
Cash and Cash Equivalents	1,200,807	163,631
Finance Lease Obligation	11,781,812	7,296,855
Provisions	2,848,231	2,490,811
Payables from Exchange Transactions	26,200,505	20,720,188
Payables from Non-Exchange transactions	1,850,712	2,235,375

### 41. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the municipality will continue to receive grants from National and Provincial Governments as well as continue to levy rates and charge for refuse collection. The proceeds are presumed to be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2016  
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2015  
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### 42. EVENTS AFTER THE REPORTING DATE

- (a) Due to the municipal elections that occurred on 03 August 2016, a new council has been appointed to the municipality. The names of the members of the recently appointed executive council are as follows:

Fulani, N.B. (Ward Councillor)  
Gwavu, S. (PR Councillor)  
Gxasheka, N.V. (PR Councillor)  
Gxasheka, N.C. (PR Councillor)  
Jako, N.M. (PR Councillor)  
Kolisi, L. (Ward Councillor)  
Lawu, N. (Ward Councillor)  
Madlingozi, N.C. (Ward Councillor)  
Magingxa, N.E. (PR Councillor)  
Maneli, S.S. (PR Councillor)  
Moyeni, L.H. (Ward Councillor)  
Mpoli, N.P. (Ward Councillor)  
Mquqo, N. (Ward Councillor)  
Mtati, N. (Ward Councillor)  
Ncanywa, D. (Ward Councillor)  
Nduneni, Z.R. (PR Councillor)  
Phumaphi, F. (PR Councillor)  
Sikweyiya, T.T. (Ward Councillor)  
Sitole, P. (Ward Councillor)  
Siwisa, M.T. (PR Councillor)  
Taylor, R.C. (PR Councillor)

The new traditional leaders are as follows:

Goni, A. (Prince)  
Ngqondi, N. (Princess)  
Njokweni, Z.P. (Chief)  
Zitshu, G.L. (Prince)

- (b) As prescribed in circular 2/2013 on Redetermination of Municipal Boundaries and Circular 2/2014 on Delimitation of Municipal Boundaries for the 2016 Local Government Elections, public consultation sessions were held both by the municipality and the Demarcation board, the outcome of which resulted in the villages of Jubisa, Qaga, Masele, Tamara, Dubu Tsolo, Cwecweni, Moni and Twecu demarcated out of the jurisdiction of Ngqushwa and was deemed to be under the jurisdiction of Buffalo City Metropolitan Municipality as at 3rd August 2016.

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>43. UNAUTHORISED EXPENDITURE</b>		
<b>Details of Unauthorised Expenditure</b>		
Remuneration for Councillors	119,337	101,779
Depreciation and Amortisation	3,902,238	11,411,547
Loss on Disposal of Assets	824,833	-
Finance Costs	3,675,138	1,682,326
Employee Related Costs	-	3,401,197
Debt Impairment	-	6,034,575
Impairment of Assets	318,045	-
	<b>8,839,591</b>	<b>22,631,424</b>
Opening balance as previously reported	50,669,691	28,887,536
Written off by Council for previous years	(22,450,424)	-
Restated Balance	28,219,267	28,887,536
Unauthorised expenditure for the year	8,839,591	22,631,424
Written off by Council	(2,341,029)	(849,269)
	<b>34,717,829</b>	<b>50,669,691</b>
<b>44. FRUITLESS AND WASTEFUL EXPENDITURE</b>		
Fruitless and wasteful expenditure for current year	112,265	34,831
Certified as irrecoverable by Council	(97,397)	(34,831)
	<b>14,868</b>	<b>-</b>
<b>Details of Fruitless and Wasteful Expenditure</b>		
Interest charged by Auditor General of South Africa	19,751	22,765
Interest charged by Telkom	2,366	359
Interest charged by Prodiba	-	92
Interest charged by Eskom	11,083	11,615
SARS penalties	79,065	-
	<b>112,265</b>	<b>34,831</b>
The above incidents have been taken to Council for consideration.		
<b>45. IRREGULAR EXPENDITURE</b>		
Opening balance as previously reported	59,499,000	-
Identified through the audit in the prior year	-	28,148,415
Add: Irregular Expenditure - current year	59,499,000	28,148,415
Amount written off by Council - Audit	23,089,635	8,128,310
Amount written off by Council - Incurred in current year	(40,415,928)	(8,128,310)
Additional irregular identified in the current year, relating to prior year	(1,060,920)	-
	-	31,350,585
	<b>41,111,787</b>	<b>59,499,000</b>

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2016 R	2015 R
<b>47. ADDITIONAL DISCLOSURE IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003</b>		
<b>AUDIT FEES</b>		
Opening balance	888,896	695,082
Current year subscription	4,133,775	2,205,149
Amount paid - current year	(5,022,671)	(2,011,335)
	<u>-</u>	<u>888,896</u>
<b>PAYE, SDL AND UIF</b>		
Opening balance	(260,623)	3,489,271
Current year subscriptions	8,780,552	8,598,685
Amount paid - current year	(7,488,935)	(11,397,993)
Correction of misallocations	(1,657,602)	(950,586)
	<u>(626,608)</u>	<u>(260,623)</u>
<b>PENSION AND MEDICAL AID DEDUCTIONS</b>		
Opening balance	768,295	5,887,958
Raising for current year	11,438,446	-
Amount paid - current year	(10,894,990)	-
Amount paid - previous year	(903,142)	-
Correction of misallocations	(336,259)	(5,119,663)
	<u>72,350</u>	<u>768,295</u>

### COUNCILLOR'S ARREAR CONSUMER ACCOUNTS

No councillors had balances in excess of 90 days in the year under review.